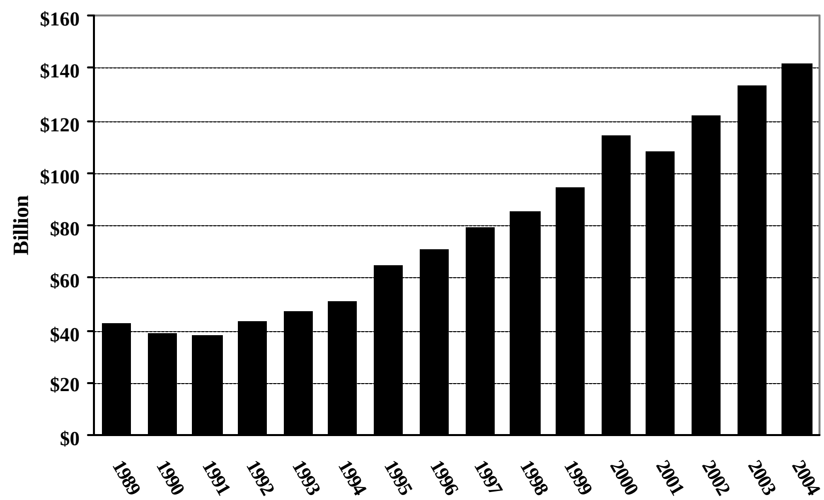
IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO | DIVISION OF FINANCIAL MANAGEMENT | MAY 2001 VOLUME XXI NO. 11

As the Pacific Northwest prepares for below-average water conditions this summer, the U.S. economy is already in the throes of a different type of drought. The object of concern is the turnaround in investment. In the past few months this component of GDP went from being an important engine of growth to a drag on the U.S. economy. Nominal fixed investment has enjoyed virtually nonstop growth since the end of the 1990-91 recession, advancing an average of 9.3% per year. Thanks to this growth, investment's share of the total economy rose steadily from 13.4% of GDP in 1991 to 17.8% of GDP in 2000. Most of this strength came in the latter part of the expansion; the ratio of investment to GDP had been above its long-term average from 1997 to 2000. Investment in computers played a significant part in this expansion. Nominal investment in computers advanced a phenomenal 13.1% annually from 1991 to 2000 thanks to low interest rates, strong corporate profits, global competition, constantly changing computer technology, and Y2K fears.

U.S. Nominal Computer Equipment Investment



Source: Standard & Poor's DRI

After years of flowing freely, the computer equipment-spending spigot was shut off abruptly late last year when it declined for the first time in eight quarters. However, unlike the previous decline in 1998 that lasted just one quarter, the current one is more protracted. Current data show nominal investment in computer equipment fell at a 4.2% annual rate in the last quarter of 2000. Unfortunately, this was followed by 30.6% annual rate plunge in the first quarter of this year. It is anticipated that investment will decline again in the second quarter of 2000. Weighed down by these declines, investment in computer equipment is forecast to drop 5.7% this year, its first annual decline since 1991. This weakness will cause U.S. nonresidential investment to grow an anemic 1.8% in 2001, which is much lower than the 13.2% growth it posted in 2000. Overall, U.S. gross private investment should slow from 10.7% in 2000 to 1.4% in 2001.

The secondary effects of this investment drought have started. As goods piled up in warehouses, high-tech companies began to reduce payrolls. The list of companies announcing layoffs reads like a Who's Who in high tech. Dell Computer, Cisco Systems, Intel, and a host of others are cutting jobs. The collateral damage from declining investment has been felt by local companies that are suppliers to industry giants. The Gem State's Jabil Circuit, MCMS, and AMI Semiconductors have also announced employment cutbacks. According to Idaho Department of Labor data, over 1,000 high-tech jobs have been cut since the beginning of this year.

Investment in computer equipment is expected to begin flowing again in the second half of this year, and in full swing by 2002. But those hoping for a return to another boom will be disappointed because it expected to average "just" 9.6% per year from 2002 to 2004. Partly due to this dampened growth, U.S. nonresidential investment should average 5.4% over this same period. Total investment is projected to increase 4.8% per year—about half its previous pace. Thus, while investment will once again flow, it will be more like a stream than a flood.

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General Fund Update

As of April 30, 2001

Revenue Source	FY01 Executive Estimate[3]	DFM Predicted To Date	Actual Accrued To Date
	$ Millions		
Individual Income Tax	1024.2	928.7	927.0
Corporate Income Tax	170.0	121.5	126.4
Sales Tax	658.0	546.9	538.0
Product Taxes[1]	20.6	17.1	17.3
Miscellaneous	127.0	84.4	95.8
TOTAL GENERAL FUND[2]	**1999.8**	**1698.6**	**1704.5**

1 Product Taxes include beer, wine, liquor, tobacco and cigarette taxes
2 May not total due to rounding
3 Revised Estimate as of January 2001

General Fund revenue collections were $11.4 million higher than expected in April. Fiscal year-to-date General Fund revenue now stands $5.9 million ahead of expectations, compared to being $5.5 million below the year-to-date estimated amount at the end of March. April's revenue strength was dominated by individual income tax filing collections. Other important elements of General Fund revenue (income tax withholding and sales tax) continued their recent trend of underperformance.

Individual income tax collections in April were $16.8 million higher than expected. $12.2 million of this excess was due to stronger-than-expected filing payments. Refund payments also contributed to April's excess, coming in $5.6 million lower than expected. Unfortunately, withholding collections in April were $1.3 million lower than expected, continuing a pattern of weakness that has withholding collection $12.4 million lower than expected on a year-to-date basis.

The corporate income tax was $5.7 million lower than expected in April. Filing collections were $8.8 million lower than expected for the month, and refunds were $0.1 million higher than expected. These two sources of weakness were partially offset by estimated payments that were $3.5 million higher than expected in March, and miscellaneous diversions that were $0.4 million lower than expected.

Sales tax collections were $1.3 million lower than expected in April. This makes seven of the past eight months the sales tax has come in below expectations. As indicated last month, the ongoing weakness in withholding collections and disappointing employment statistics (especially increases in weekly unemployment claims) make it very unlikely this trend will change soon.

Product taxes were $0.1 million higher than expected in April on strength in cigarette tax collections. Miscellaneous revenue was $1.5 million higher than expected for the month of April. $0.8 million of this excess is due to higher-than-expected interest earnings.